

# **Rent Subsidies and Tenant Selection in Public Housing in Canada**

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RENT SUBSIDIES and TENANT SELECTION  
in PUBLIC HOUSING

This is a statement of some general considerations affecting low-rental housing and suggests some principles that might be followed in working out the methods of selecting tenants.

(1) Public Support of Rent Subsidy

Any degree or kind of rent subsidy is a means by which one group within the community pays part of the rent of another group. The greater the proportion of the subsidy contributed by the local government the more direct and apparent does this transaction become. It follows that a housing programme involving subsidies cannot continue in operation without the positive support of the local taxpayers. They are only likely to give this continuing support under certain conditions.

- (a) They must understand why they are asked to contribute to the subsidy and they must believe that the purpose has a profound social justification. Eventually they will expect to see some practical demonstration of the achievement of that purpose.
- (b) They must be assured that the tenants who benefit from the subsidy are exclusively those who come within the recognised social purpose. The basis of tenant selection therefore becomes a most important feature.
- (c) They must be assured that, even though subsidised to some extent, each tenant family is required to pay a rent to the full extent of its real capacity. For this reason a rent-scale adjusted to income is an essential feature of low-rental housing.

(2) Accepted Reasons for Rent Subsidy

There are several basic justifications for subsidising housing, which have generally received public recognition.

- (a) The Veteran - The Canadian public has accepted the view that the families of veterans are entitled to some special housing aid on account of their difficulties in otherwise getting reestablished. This provides a simple

set of criteria for tenant selection, based primarily on length of service. While rental housing has been provided for the particular use of veterans, it has been assumed that a considerable proportion of them would eventually be able to support their own housing costs; they have therefore been encouraged to progress into a position of home-ownership.

- (b) Sub-Standard Housing - In both Britain and the U.S. public housing originated in the endeavour to move low-income families out of slums, substituting new housing for sub-standard housing. The social justification for the subsidies required to do this has been in the conception of Public Health. The arguments on which support for public housing has been won all revolve around Public Health in the widest meaning of the term. It is argued that the ill effects of poor housing eventually impinge upon the community as a whole or are paid for in the costs of health and welfare arising out of poor housing conditions.

The U. S. Housing Act of 1949 (under which public housing is now built) requires that within 5 years substantially the same number of slum dwellings must be eliminated as the number of public housing units built in the locality. Except for the special circumstances of the post-war period this has been the basic concept also of British public housing.

It should be noted also that in Canada the Regent Park project won public support for subsidised housing as a means of clearing a slum area. Also in both St. John's Nfld. and Saint John, N. B. the Section 35 projects have been directly linked with the clearing of sub-standard housing. The achievement of this purpose has provided the basis for tenant selection.

If the tenants for public housing are selected from those occupying the worst accommodation it is essential that sub-standard housing be removed. If this is not done the old housing is reoccupied and no total progress has been made in raising the standards of public health. This is very obvious, but in the early processes of public housing it is surprising how easily this simple proposition can be overlooked.

The term "equivalent eliminations" is used to explain the system of substituting public housing for slums on a "one-to-one" basis.

- (c) Overcrowding - The same concept of Public Health has been used to justify subsidies even where the elimination of sub-standard housing could not immediately take place because of an absolute shortage in the housing stock. However, in British practice this has historically always been linked with slum-clearance; it has appeared that the most justifiable point of attack for removing overcrowding is in slum areas, so as to expedite the eventual purpose of removing sub-standard housing. This idea is also found in the application of the present U. S. Housing Act; the removal of sub-standard housing can be deferred where there is an absolute shortage, but the payment of subsidies to public housing is still linked with the commitment to remove unhealthy housing conditions.

Where elimination cannot take place on a "one-for-one" basis (equivalent elimination) it may be expedient to use a system of "proportional elimination". If one sub-standard house were eliminated for each two or each three new units built the basic public health purpose would be achieved and the total shortage situation recognised.

(3) Rent Subsidy as a Means of Adding to the Total Stock of Housing

In old-established cities the use of housing subsidies will probably continue to be linked with the clearance of slums because in the public mind, there is an obvious justification for this and there is a practical satisfaction in seeing the bad housing removed. This appears to be a reasonable point of view in the Maritime and larger Eastern cities.

However, in newer Canadian cities there is inevitably a different emphasis because the number of lower-income families requiring rental housing obviously exceeds the number of housing units that could be described as sub-standard and ripe for removal. It is therefore argued that some form of subsidised housing is required simply to add to the stock. This argument has particular force at a time when there is a decline in the whole volume of new housing. The situation is peculiar to a region and a country in a condition of rapid population growth and high building standards, where housing production cannot keep pace with the quantity and quality required. The situation has peculiar difficulties, however, when it comes to the point of determining the particular people who should benefit from subsidies contributed by the general and local taxpayers. In this respect the use of Section 35 for low-rental housing opens up a situation for which there is no exact precedent.

The first reaction to this problem is likely to be the thought that the tenants to be selected should be in an income class immediately below the economic level of those who can afford to solve their own housing problems. This at least would reduce the required subsidy to a minimum and there would be a prospect that some tenants would shortly graduate to a position in which they could pay an economic rent. This point of view, however, is likely to be modified by a precaution against those who might "linger" in subsidised housing; to overcome this the critical income level should be well clear of the line at which an individual could afford the costs of home-ownership. In the U.S. Housing Act this is provided for in Title III Sec. 301 (7)b by which the local housing authority must demonstrate "that a gap of at least 20 per centum has been left between the upper rental limits for admission to the proposed low-rent housing and the lowest rents at which private enterprise unaided by public subsidy is providing" housing. To meet the Canadian situation this kind of provision should probably be linked to the costs of home-ownership rather than to free-enterprise rents. (It is not easy to find a comparable statement, however, when the limitation upon home-ownership is the cash equity rather than the carrying charges on a mortgage. In fact, this line of thought leads inevitably to the conclusion that it would be preferable to give substantial aid to reduce equity requirements rather than increase the class who require publicly-assisted rental housing).

Supposing that the top level for admission to low-rental housing could be determined in relationship with the current costs of home-ownership (with a realistic view of whether such home-ownership housing was available in the locality) how far down the income scale should tenancy be taken and what should be the basis of selection within this whole range?

(4) Basis of Tenant Selection when Redevelopment Not Involved

It may appear at first that tenants should be drawn from a comparatively narrow band near the top of the low-income range in order to reduce the load of the subsidy payments provided by the taxpayer. But when consideration is given to the basis of tenant selection it becomes evident that this policy would not be supportable once the principle of subsidisation has been accepted; any redistribution of public funds must be equitable as between one income class and another whether it is in the form of a pension, a tax rebate or a housing subsidy. It must also be associated with some profound social purpose which, in this case, is the improvement of housing standards.

Directly the matter of tenant selection is considered it becomes evident that the criteria must be the intensity of housing need. The only reasonable cause for selecting one tenant rather than another must be that the housing he at present occupies has greater physical deficiencies and that he is less able to correct the situation on account of income limitations. In the last resort the justification for the subsidy can again only be explained in terms of public health. If this is really the underlying principle it is difficult to see how the use of public money could justifiably be used to ease a less acute housing condition and refused to cases of more acute housing need. The only possible principle for universal application is: The greater the need, the greater the priority. The public would not long sanction an arrangement by which public funds were used to benefit a richer rather than a poorer class in the community -- when the public realised that this was in fact what was being done.

Followed to its logical end this argument would lead to subsidised housing being exclusively tenanted by the lowest-income and worst-housed families in the community. This would magnify the subsidy requirements to the maximum and would certainly dampen any ardour for public housing. Confronted with this dilemma thoughtful proponents of public housing have so far invariably arrived at the conclusion that, rather than making all the lowest income families eligible for tenancy, the selection should be limited to those on sites proposed for redevelopment or those in sub-standard houses which are to be condemned. This has provided an understandable set of limitations and usually results in producing a fairly representative cross-section of low-income families.

But when low-rental housing has to be provided without being related to a redevelopment process, what principles could be defined as a basis for tenant selection and to keep the total amount of subsidy within reasonable limits? The following principles are suggested:

(a) Total Amount of Subsidy

The participating governments must agree upon the maximum subsidy payments to which they are willing to be committed in any one year. The local housing authority responsible for tenant selection must then select a group of tenants whose incomes are sufficient to maintain a certain level of rent revenue which, together with the subsidy, would meet operating costs.

Agreements for the Section 35 projects in the Maritimes have limited the amount of subsidy by determining the average rent that must be maintained, the difference between this figure and the true economic rent being the subsidy per unit. The average rent is conceived as a point midway between the highest and lowest rents. In application to the projects in the Maritime cities it was assumed that, while adhering to this figure it would be possible to rehouse all the families in the sub-standard housing to be cleared.

This same device could be used to limit the amount of subsidy to be paid towards a low-rental project not related with slum clearance. This would mean that a project could not be populated entirely with the lowest-income families; it might be regarded as an expression of the belief that a subsidised project should be available to a cross-section of families within the whole low-income range. This might seem to contradict the major social purpose for rehousing those in the greatest need, but it would be a recognition of two other principles:

- (i) The benefits of subsidised housing should be spread through the whole low-income group rather than concentrated at the lowest level;
- (ii) There is an ultimate advantage in using the available resources of public funds to produce more units at a lesser subsidy rather than fewer units each more heavily subsidised.

(b) Range of Rents

Assuming that rents are adjusted to income on the scale now commonly used, it is necessary to define both top and bottom limits of the scale.

- (i) Upper Limit - The basic principle is that no one should be in receipt of a housing subsidy who is financially capable of paying his own way and for whom some suitable accommodation is available. In an overall housing shortage this might lift the limit to the level of economic rent. However, there is always likely to be the suspicion that tenants will linger near the top limit and not make a vigorous effort to move into unassisted housing. For this reason it is better to set the limit for admission considerably lower than it might theoretically be placed, with a gap, for instance, of \$15 between the upper limit and the economic (free enterprise) rent or cost of homeownership. In practice some tolerance can, if necessary, be given to those whose incomes subsequently increase.

The important consideration is the upper limit of admission.

- (ii) Lower Limit - The basic principle here is that rent levels should reach down into the lowest-income group in order to relieve the real stresses of inadequate housing and so fulfill the ultimate "public health" purposes of housing subsidies. Housing subsidies should not, however, be used to substitute for other health and welfare provisions; the lowest income recognised on the rent scale should correspond with the minimum basic wage for labour in the area. Incomes lower than this basic level may have to be supplemented by other welfare contributions to enable such families to occupy low-rental housing. This may be hard to accomplish and inadequate welfare arrangements may cause some families to be excluded. But as a matter of principle it is advisable to make a sharp distinction between the proper function of housing subsidies and other welfare responsibilities.

(c) Distribution Within the Rent Range

Assuming that tenants for a low-rental project are to be drawn at large from those in the community whose incomes fall within the prescribed range, how should selections be made?

If selection were based entirely on need (that is, the condition of present housing and financial incapacity to improve the situation) the tenants would almost exclusively have to be drawn from the lower band of the prescribed income group. This, however, would not conform with the agreement to maintain an average rent midway in the rent range. To overcome this difficulty it seems necessary to divide those eligible into, let us say, three income groups, (an upper, a middle and a lower group) and then select a proportionate number of tenants from each group. In this way, families at any point in the income range would have a comparable chance of selection and tenancy would not be reserved for either an upper or a lower group.

(Consideration must be given to local circumstances before determining whether an equal number should be selected from each income group, or whether the proportion should be based on some governing factor. It might be argued, for instance, that more tenants should be selected from the upper group because there are more whose incomes fall in this group. But this is offset by the fact that the lower group is at a greater disadvantage in overcoming housing difficulties. It would probably be best to start with the simplest formula of



equal numbers from each group, and subsequently reconsider the formula in the light of experience; the number of applications coming from each group should be recorded as a basis for determining later policy.)

For instance the rent range might be divided as follows, with approximately the same number of tenants selected from each group.

	<u>Rent</u>	<u>Average Monthly Income</u>	<u>Average Rent by Agreement</u>
Group A	\$45 - \$55	\$250	
Group B	\$35 - \$45	\$200	\$40
Group C	\$25 - \$35	\$150	

(d) The Criteria of Selection

Having determined the range of incomes and the method of securing a general distribution within that range, it is then necessary to determine the criteria and rating system on which selection is to be based. Presumably these will represent measurements of housing need involving the following factors.

- (a) Physical condition and environment of housing at present occupied.
- (b) Evidence that other accommodation of suitable size, rent and location is not available.
- (c) Composition of family and particular need for more healthy conditions.
- (d) Other factors justifying aid, such as length of residence in area, military service, etc.

GENERAL CONCLUSIONS

- (1) Public Housing should be operated only for income groups which cannot be provided with suitable housing by private enterprise. Rather than providing public housing at economic rents, all other means of housing provision should be exploited. It follows that all public housing should have an element of subsidy and should be operated on a rent-scale adjusted to income.
- (2) If there is not an absolute shortage of housing, public housing should only be operated on an "equivalent elimination" basis. Increasing pressures of absolute shortage justify various degrees of "proportional elimination". There is no social satisfaction in seeing families removed from unhealthy conditions and immediately replaced by other families.
- (3) When public housing is used to add to the total stock (not in relation with slum clearance) the available public funds could be used either to increase the subsidy (and so reach lower income families) or to increase the number of housing units built (and so limit the subsidy and exclude lower-income families). But it is evident that subsidies would not be justified at all unless they reached lower-income families. Consequently some measure of compromise is required and subsidies must be spread over a range of low-income families.
- (4) When tenant selection is not governed by the limits of particular sites to be cleared it is necessary to prescribe other limits the more clearly. A system of "group selection" is necessary in order to avoid the difficulty that otherwise the criteria of need would populate projects with lowest income families who would require a subsidy greater than is available. The "group selection" system provides an equality of distribution between various income levels.

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